

## Reps. Frank, Bachus assert Financial Services jurisdiction over Farm Credit System

February 28, 2007

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Chairman, Ranking Member ask Agriculture Committee leaders to consult with them on legislation to expand the program

In correspondence to their counterparts on the House Agriculture Committee, House Financial Services Chairman Barney Frank (D-Massachusetts) and Ranking Member Spencer Bachus (R-Alabama) requested that the two committees have an opportunity to consult on legislation proposing to expand the scope of the Farm Credit System.

"We are concerned about proposals by the Farm Credit System to significantly expand its lending authority beyond its statutory mission of providing credit to our nation's agricultural sector," stated Chairman Frank and Ranking Member Bachus in their letter to House Agriculture Chairman Collin Peterson (D-Minnesota) and Ranking Member Bob Goodlatte (R-Virginia). "Because these proposals would fall within the jurisdiction of the Committee on Financial Services, we request your prior consultation before any legislation is considered to authorize such an expansion."

Under current law, the Farm Credit System is authorized to make loans in rural communities of 2,500 people or fewer. Under a proposal developed in connection with the Farm Credit Council's Horizons Project, this 2,500 threshold would be raised to 50,000 by redefining what constitutes a "rural" area, setting the stage for the Farm Credit System to broadly expand its lending authority.

"Under the '50,000 people or fewer' proposal, farmers and ranchers would find themselves receiving secondary consideration to high-value customers in newly defined 'rural' communities like Beverly Hills, CA (population: 21,396), Darien, CT (population: 20,452) or McLean, VA (population: 38,929)," stated Chairman Frank and Ranking Member Bachus. "Such changes would clearly violate the original mandate of the Farm Credit System and exceed the jurisdictional purview of the Committee on Agriculture."

Text of the Frank-Bachus letter follows.

February 28, 2007

The Honorable Collin Peterson

Chairman

The Honorable Bob Goodlatte

Ranking Member

Committee on Agriculture

1301 Longworth House Office Building

Washington, D.C. 20515

Dear Chairman Peterson and Ranking Member Goodlatte:

We are concerned about proposals by the Farm Credit System to significantly expand its lending authority beyond its statutory mission of providing credit to our nation's agricultural sector. Because these proposals would fall within the jurisdiction of the Committee on Financial Services, we request your prior consultation before any legislation is considered to authorize such an expansion.

Rule X of the House of Representatives, clauses 1(a) and (g) clearly provide that the Committee on Agriculture has jurisdiction over the extension of farm credit, but jurisdiction over credit in general is within the jurisdiction of the Committee on Financial Services. The Farm Credit System is a direct lending government sponsored enterprise (GSE) chartered by Congress to provide a source of credit for agricultural mortgages. However, its mission has crept over time to expand well beyond agriculture mortgages, and in fact less than half of its business now comes from agricultural real estate lending.

While the Farm Credit System was established exclusively to make farm loans, it now offers everything from auto to housing loans, and increasingly is providing small business financing in rural areas, as well as supplying credit to huge agribusinesses, such as ADM and Cargill. Without the discipline of the free market and armed with the special powers and privileges of a government charter, the Farm Credit System presents unique risks to the market and taxpayers who ultimately back Farm Credit bonds.

It is natural to want to extend one's reach in the marketplace, but the expanded lending can easily and swiftly tilt a competitive landscape in which the Farm Credit System directly competes with the private sector in retail lending. Under current law, the Farm Credit System is authorized to make loans in rural communities of 2,500 people or fewer. Under a proposal developed in connection with the Farm Credit Council's Horizons Project, this 2,500 threshold would be raised to 50,000 by redefining what constitutes a "rural" area, setting the stage for the Farm Credit System to broadly expand its lending authority.

In particular, the Farm Credit System's plans to finance suburban housing, condominium projects, hospitals, pet resorts and vacation homes would fundamentally change its charter and mission at the expense of those people it was established to serve. Under the "50,000 people or fewer" proposal, farmers and ranchers would find themselves receiving secondary consideration to high-value customers in newly defined "rural" communities like Beverly Hills, CA (population: 21,396), Darien, CT (population: 20,452) or McLean, VA (population: 38,929). Such changes would clearly violate the original mandate of the Farm Credit System and exceed the jurisdictional purview of the Committee on Agriculture.

We hope that as the Committee on Agriculture begins consideration of a major farm bill in the 110th Congress, it will consult with the Committee on Financial Services regarding any expansion of the Farm Credit System and avoid any broadening of the System's lending activities beyond extensions of farm credit. Please do not hesitate to contact us if you have any questions regarding this matter. We appreciate your consideration.

Sincerely,

Barney Frank

Spencer Bachus

Chairman

Ranking Member

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